

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2023-388-E**

In the Matter of:	)	
	)	<b>DIRECT TESTIMONY OF</b>
Application of Duke Energy Carolinas, LLC	)	<b>SHANNON CALDWELL</b>
to Adjust and Increase its Electric Rates and	)	<b>FOR DUKE ENERGY</b>
Charges	)	<b>CAROLINAS, LLC</b>
	)	

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**I. INTRODUCTION AND PURPOSE**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BUSINESS AFFILIATION, AND CURRENT POSITION.**

A. My name is Shannon Caldwell. My business address is 525 South Tryon Street, Charlotte, North Carolina 28202. I am employed by Duke Energy Business Services LLC ("DEBS") as Director, Compensation. DEBS provides various administrative and other services to Duke Energy Carolinas, LLC ("DEC" or the "Company") and other affiliated companies of Duke Energy Corporation ("Duke Energy").

**Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.**

A. I graduated from the University of North Carolina with a Bachelor of Science degree in Business Administration and the University of South Carolina with a master's degree in Human Resources. I also hold various certifications including a Certified Compensation Professional designation.

I have 10 years of human resource experience, primarily working with compensation programs. I joined Duke Energy in 2013 and have held various positions in human resources. In addition, I have served in key roles on several projects, including the integration of Progress Energy and Piedmont Natural Gas employees into Duke Energy compensation programs. In my current role as Director Compensation, I am responsible for all broad-based compensation, including compensation design and strategy, management of key vendor relationships, and compensation administration and compliance.

1   **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**  
2       **SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)**  
3       **OR ANY OTHER COMMISSION?**

4   A.   No.

5   **Q.   PLEASE SUMMARIZE YOUR TESTIMONY.**

6   A.   The purpose of my testimony is to demonstrate that the compensation and  
7       benefits programs provided to Duke Energy employees are necessary to attract,  
8       engage, and retain the skilled and experienced workforce the Company needs  
9       to provide reliable electric service to its customers. I explain how these  
10      programs are market competitive and comparable to programs offered by other  
11      utilities, as well as other companies outside of the utility industry. My testimony  
12      discusses why being market competitive is critical, namely because Duke  
13      Energy competes with other utilities and companies in the labor market for  
14      talent.

15           I also outline the design and function of our compensation programs and  
16      explain how they are in line with the industry, are market competitive and how  
17      the performance metrics directly benefit DEC customers through safe and  
18      reliable service, customer service quality, and low energy costs. As described in  
19      greater detail in my testimony, incentive pay is a key component of Duke  
20      Energy’s compensation program. In the competitive market for talent,  
21      employees consider the total rewards package, including base pay, incentive  
22      pay, and benefits as a key determinant in deciding whether to work for a  
23      particular employer. Accordingly, whether it is through base pay or a

1 combination of base pay and incentives, Duke Energy must keep its overall  
2 compensation package competitive to attract and retain a competent workforce.  
3 Incentive pay is therefore similar to other costs necessary to provide customers  
4 safe and reliable service. As such, in my opinion, the program expenditures by  
5 the Company in connection with these programs are reasonable and prudently  
6 incurred costs of service to our customers.

7 The Commission has already recognized the crucial role of Duke  
8 Energy's ability to craft compensations programs and frameworks to attract and  
9 retain the workforce necessary to maintain reliable service to customers. This  
10 framework – like most major corporations—includes incentive compensation.  
11 I believe the Commission recognized the importance of incentive compensation  
12 when it authorized the Company to recover all pay as requested by the Company  
13 in its previous rate case, decided only five years ago. The factors that underpin  
14 the importance of full cost recovery have not diminished over the past five years  
15 – to the contrary, many employers and industries have experienced greater  
16 workforce turnover as a result of the “Great Resignation,” and the electric utility  
17 industry is no exception. Employee turnover is expensive, particularly in  
18 specialized industries – such as ours – which utilize a highly skilled labor force  
19 that requires lengthy and intensive periods of apprenticeship and training.  
20 Accordingly, as my testimony demonstrates, the Company's allocated  
21 compensation expense, including incentive compensation, is reasonable and  
22 prudent, and should be recovered in rates in the manner approved by the  
23 Commission in the Company's previous rate case.

1   **Q.     DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?**

2   A.     Yes. I have two exhibits to my direct testimony. Caldwell Direct Exhibit 1  
3           provides a complete list of the salary surveys in which Duke Energy currently  
4           participates to benchmark compensation. Caldwell Direct Exhibit 2 is the 2022  
5           short-term incentive pay scorecard for non-leadership employees.

6   **Q.     WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR**  
7           **DIRECTION AND SUPERVISION?**

8   A.     Yes.

9                               **II.     WORKFORCE OVERVIEW**

10  **Q.     WHAT TYPES OF SPECIAL SKILLS OR KNOWLEDGE ARE**  
11           **REQUIRED TO OPERATE AN ELECTRIC UTILITY SUCH AS DEC?**

12  A.     Generation, transmission, and distribution of electric power are complex  
13           undertakings requiring a highly skilled workforce. A few examples serve to  
14           illustrate this point:

- 15               • Engineering professionals help to design, build, operate, and maintain  
16               our generation plants and the transmission and distribution systems that  
17               provide power to our customers.
- 18               • Plant operators are responsible for generating the electricity that powers  
19               our customers' homes and businesses.
- 20               • Lineworkers must work quickly and efficiently, especially under  
21               adverse weather conditions, to maintain, improve, and if necessary,  
22               restore our transmission and delivery infrastructure to keep electricity  
23               flowing to our customers.

- Field service and call center employees must understand the services provided by the Company, including the metering, billing, and collection processes, plus various other customer service matters.
- At the corporate level, highly skilled managers, engineers, accountants, cyber security analysts, and other professionals are needed to support the employees who are directly responsible for generating, procuring, and delivering electricity to the Company's customers.

**Q. HOW IMPORTANT IS THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES TO THE COMPANY'S ABILITY TO PROVIDE SERVICE TO ITS CUSTOMERS?**

A. The ability to attract and retain employees with the required technical skills is critical to the success of the Company, and very important to our ability to provide safe, reliable, and high-quality electric utility service to our customers. A fundamental factor with respect to the ability of any employer to attract and recruit skilled and qualified employees is the employer's compensation and benefits programs – potential employees will simply look elsewhere if the employer's total rewards package fails to achieve market competitiveness.

As such, compensation and benefits are highly important to the Company's ability to attract, engage, and retain a diverse, qualified workforce, especially considering the size of Duke Energy's approximately 28,000 employee workforce. One of the keys to providing a desirable workplace where employees want to continue working is to ensure that employees have the opportunity to participate in competitive pay and benefits programs.

1   **Q.    IN RECENT YEARS HAS DUKE ENERGY EXPERIENCED**  
2       **CHALLENGES ATTRACTING AND RETAINING A HIGHLY**  
3       **TRAINED AND SKILLED WORKFORCE?**

4    A.   Duke Energy has indeed experienced challenges both in attracting and retaining  
5       its workforce across the entire enterprise. For example, our job offer acceptance  
6       rate in 2022 was 84.05% compared to 87.8% in 2021, 90.7% in 2020, and  
7       91.0% in 2019. Regarding retention, in 2022 our enterprise voluntary turnover  
8       was 8.41% compared to 7.06% in 2021, 4.26% in 2020, and 5.18% in 2019.  
9       These statistics show that Duke Energy, despite our best efforts, has not been  
10      immune from the challenges that many employers have experienced attracting  
11      and retaining employees in recent years, with tight labor market conditions  
12      marked by high employee mobility and high inflation.

13   **Q.    WHAT ARE THE IMPLICATIONS OF THE CHALLENGES THAT**  
14       **DUKE ENERGY HAS EXPERIENCED IN ATTRACTING AND**  
15       **RETAINING EMPLOYEES?**

16   A.   Our employees deliver critical services to our customers every day, and the  
17       energy industry is a knowledge and experience-intensive industry where the  
18       tenure of employees matters. Maintaining a competitive compensation and  
19       benefits package is instrumental in meeting Duke Energy and DEC's shared  
20       goals of providing safe, adequate, reliable, and reasonably priced utility service  
21       to customers.

### **III. COMPENSATION OVERVIEW: PHILOSOPHY, COMPONENTS, AND CUSTOMER BENEFIT**

**Q. WHAT IS DUKE ENERGY'S COMPENSATION PHILOSOPHY?**

A. Duke Energy's overall compensation philosophy is to target total compensation of base pay and incentives, including both short- and long-term, at the median of the market when compared to peer companies, with the opportunity to earn more or less relative to the market median based on actual performance. We have an obligation to be responsive to the market for talent and assure the competitiveness of the total compensation package, consisting of base salary, cash-based incentives, and, for some employees, long-term incentive compensation. Duke Energy's compensation philosophy has three major parts:

First, Duke Energy wants its compensation to be market-based, meaning it is competitive with the external labor market, allowing it to remain attractive against competition in order to attract and retain qualified and diverse employees. Duke Energy employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety, and a focus on the customer by aligning our employees' pay to quality service for customers.

Second, Duke Energy is performance oriented. It believes that linking compensation to performance is one way it can engage employees, set high expectations for employees, and reward results that benefit customers. Duke Energy's compensation program is designed to provide total compensation that is consistent with performance.



1 Third, Duke Energy is fair and flexible. Its well-managed policies and  
2 pay administration guidelines ensure that it pays employees consistently and  
3 fairly across departments, but it is also flexible when it needs to align its policies  
4 with business needs as they grow and change.

5 **Q. IS DUKE ENERGY'S COMPENSATION PHILOSOPHY FOR**  
6 **EXECUTIVES SIMILAR TO THE PHILOSOPHY APPLICABLE TO**  
7 **NON-EXECUTIVE EMPLOYEES?**

8 A. Yes. The compensation philosophy is similar for both executive employees and  
9 for employees below the executive level. The compensation package for  
10 executives consists of a combination of fixed and variable pay using base salary,  
11 short-term incentives, and long-term incentives. These components, taken  
12 together, are targeted to deliver total compensation that is competitive with  
13 Duke Energy's peers and consistent with performance. Duke Energy adopted  
14 this executive compensation strategy in order to attract and retain the executive  
15 talent required to deliver superior performance. The strategy emphasizes  
16 performance-based compensation that balances rewards for both short-term and  
17 long-term results and that aligns the executives' interests with the long-term  
18 success of Duke Energy, including DEC, and its customers.

19 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPENSATION**  
20 **PROGRAMS PROVIDED BY DUKE ENERGY.**

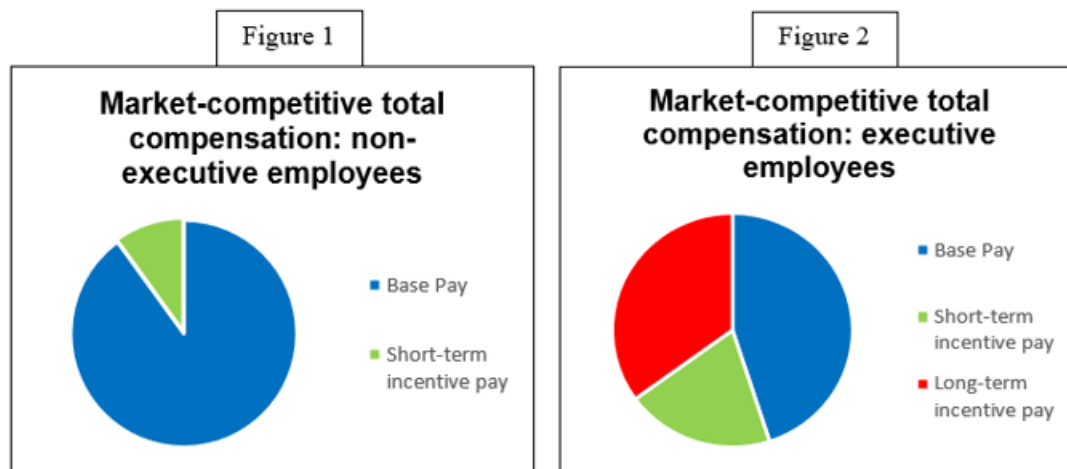
21 A. Duke Energy's compensation programs consist of a base pay component and  
22 incentive pay components that together provide a market-competitive, total  
23 compensation package for all employees. The base pay component is a set

1 amount, reviewed by management at least annually, and established at a level  
2 that: (1) provides compensation based on the nature and responsibilities of the  
3 employee's position; (2) is fair relative to the pay for other similarly situated  
4 positions in the organization; and (3) when combined with incentive pay  
5 opportunities, is market competitive.

6 The short-term incentive ("STI") pay component is variable based on  
7 performance and is "at risk" pay - that is, employees are "at risk" of not  
8 receiving this component of their compensation package. All employees are  
9 eligible for the STI as a component of their total pay. Carving out a portion of  
10 employees' total compensation and delivering it through variable incentive pay  
11 serves the following multiple purposes: (1) encourages employees to  
12 accomplish specific objectives intended to ensure safe, reliable, and economical  
13 utility service for our customers; (2) fosters the success of business units and  
14 Duke Energy's overall success; and (3) aligns with competitors' pay structures.

15 The long-term incentive ("LTI") plans round out a competitive total  
16 compensation package for certain employees in leadership positions. Including  
17 LTI programs as a portion of total compensation for leadership positions is  
18 market competitive and necessary to attract and retain the high-caliber leaders  
19 needed to ensure safe, reliable, and economical utility service for our customers.  
20 Simply put, competent management benefits customers.

21 For illustrative purposes, Duke Energy's total compensation concept is  
22 depicted below in Figures 1 and 2.



1 As Figures 1 and 2 make clear, base pay alone does *not* equate to market-  
 2 competitive total compensation – rather, base pay *in combination with*  
 3 incentive pay equates to market-competitive total compensation.

4 **Q. HOW DOES DUKE ENERGY KNOW ITS COMPENSATION IS**  
 5 **MARKET COMPETITIVE?**

6 A. The Company refers to numerous published surveys to assess whether its  
 7 compensation is market competitive. As compared to these surveys, the  
 8 Company's pay levels are competitive with market 50<sup>th</sup> percentile for base  
 9 salary and total compensation (base pay plus incentives). As just one example,  
 10 the salary range for a Senior Engineering Technologist at Duke Energy is  
 11 \$86,400 to \$129,600, with a midpoint of \$108,000 and total cash compensation  
 12 of \$118,800. These figures are in line with the market median from the WTW  
 13 Energy Services Mid-Management & Professional 2023 survey which reflects  
 14 \$107,983 for base pay and \$118,142 for total cash compensation for the same  
 15 position. Further, we routinely benchmark total compensation (base pay plus  
 16 incentives) against other similarly sized companies, both within and outside of

1 the utility industry, and participate in a variety of third-party salary surveys on  
2 an annual basis. These surveys contain aggregated compensation data,  
3 including base pay and incentive targets, from multiple employers for various  
4 job functions and career levels. Duke Energy analyzes this data to determine  
5 overall competitiveness of pay for jobs throughout the enterprise. A complete  
6 list of the salary surveys Duke Energy currently participates in is reflected in  
7 Caldwell Direct Exhibit 1.

8 **Q. DOES A COMPETITIVE TOTAL COMPENSATION PACKAGE FOR**  
9 **EMPLOYEES BENEFIT THE COMPANY'S RETAIL CUSTOMERS?**

10 A. Yes. Our employees deliver critical services to our customers every day. We  
11 need to attract, develop, and retain – over the long term – the employees that  
12 design, build, and operate our plants and the employees that maintain and  
13 improve the infrastructure necessary to keep the lights on. Many craft positions  
14 require lengthy apprenticeships to learn the skills needed to perform work  
15 independently and safely. The competencies needed for employees in highly  
16 skilled positions – such as Line Technicians and engineers – take many years to  
17 develop. If we were to lose such employees, we would incur additional costs to  
18 train replacements for these positions, while experiencing additional risk with  
19 regard to reliability issues. The expense incurred to hire and train new  
20 employees, and the loss of productivity realized through high turnover rates,  
21 would negatively affect the Company's ability to provide safe and reliable  
22 service at a reasonable cost.

1           This is also true for leadership positions. Duke Energy invests in  
2           developing highly effective leaders who develop and carry out the  
3           organization's strategy and inspire employees to work together to achieve  
4           results the right way. Many of our leaders possess extensive industry  
5           experience, advanced degrees, and demonstrated examples of excellent  
6           leadership, making recruitment and retention of such leaders critical to the  
7           success of the Company, particularly in this changing energy landscape.

8   **Q.   WHY ARE LTI PLANS A NECESSARY COMPONENT OF EXECUTIVE**  
9   **COMPENSATION?**

10   A.   LTI pay as a component of overall compensation for our executive ranks is  
11       market-competitive and provides Duke Energy with an effective retention tool.  
12       Offering less than competitive levels of compensation would put Duke Energy  
13       at risk of losing these valuable leaders to other companies and potentially  
14       having to pay more to attract the same level of leadership talent externally. In  
15       addition, the inclusion of LTI pay ensures that our leadership is focused on the  
16       long term, and not overly focused on the short term. Finally, incenting a focus  
17       on long-term sustainable company performance provides a benefit to  
18       customers, as a financially strong company will have greater access to capital  
19       at a lower cost, which in turn benefits customers through a lower cost structure.

1 **Q. HOW DO YOU KNOW THAT DUKE ENERGY'S COMPENSATION**  
2 **PROGRAMS ARE SUCCESSFUL AT RECRUITING, RETAINING,**  
3 **AND REWARDING TALENT?**

4 A. Despite the challenges that employers both inside and outside the utility  
5 industry have experienced attracting and retaining qualified employees in  
6 recent years, Duke Energy's long-term trends of low voluntary attrition and  
7 high offer acceptance rates are strong indicators that our pay for performance  
8 compensation philosophy is successful. While the previously discussed job  
9 offer acceptance rate has decreased from 2019 to 2022 due to the tight labor  
10 market experienced in recent years, our statistics bear out the proposition that  
11 we have achieved a measure of success in retaining employees. For example,  
12 as of December 31, 2022, the average tenure of our employees is thirteen years,  
13 with 46% of employees having been with Duke Energy for ten or more years.  
14 This statistic indicates that Duke Energy is achieving the goals our  
15 compensation philosophy is designed to achieve.

16 **IV. DETAILED REVIEW OF DUKE ENERGY'S COMPENSATION**  
17 **COMPONENTS**

18 **Q. PLEASE DESCRIBE DUKE ENERGY'S BASE PAY PROGRAMS.**

19 A. For most non-union positions, Duke Energy utilizes base salary ranges  
20 consisting of a minimum and maximum base salary for each job grade. We  
21 perform an annual review of market data for both general industry positions and  
22 energy services positions and compare that data to our total compensation  
23 package (base pay plus incentives). Using this market data, salary ranges are

1 reviewed annually to remain competitive. Market data is also reviewed and used  
2 to determine annual wage increase recommendations.

3 To determine the compensation for executive officers, on an annual  
4 basis, the Compensation and People Development Committee of the Board of  
5 Directors of Duke Energy (“the Committee”) reviews data from nationally  
6 recognized, independent executive compensation consulting firms (Frederick  
7 W. Cook and WTW). The peer group of companies used for these analyses  
8 consists of companies that represent the talent markets from which Duke  
9 Energy competes to attract and retain executive employees.

10 **Q. YOU MENTIONED EARLIER THAT THE INCENTIVE PAY**  
11 **COMPONENT OF DUKE ENERGY’S COMPENSATION PROGRAM**  
12 **HAS TWO COMPONENTS, STI AND LTI. PLEASE DESCRIBE THE**  
13 **STI COMPONENT.**

14 A. All employees are eligible for the STI component of incentive pay, which, as I  
15 testified previously, puts “at risk” a portion of each employee’s compensation.  
16 The STI program is designed to promote a workforce culture that responds to  
17 pre-determined performance goals set both at the corporate level and at a  
18 “team” (for non-leadership employees) or individual (for leadership employees)  
19 level. How much of the STI component is actually paid out to an individual  
20 employee depends on the degree to which the performance goals are met.

21 The process of determining an employee’s STI compensation begins  
22 with the setting of goals at the commencement of each year. The Committee  
23 approves the corporate level performance goals for the upcoming year, as well

1 as individual goals for leadership employees, and executive leadership for each  
2 business unit sets the team goals for non-leadership employees.

3 Caldwell Direct Exhibit 2 is a generic scorecard for non-leadership  
4 employees that reflects the corporate goals approved by the Committee. As the  
5 scorecard reflects, each goal reflects the specific metrics required to meet the  
6 goal at three different levels – the Minimum, Target, and Maximum level. The  
7 payout associated with achievement of each goal is based upon where along the  
8 Minimum to Maximum continuum the corporate performance falls. A thorough  
9 review is performed at the end of the year to determine the achievement level  
10 for each performance goal.

11 For leadership employees, individual goals replace the “team”  
12 component, with performance also measured against achievement. Caldwell  
13 Direct Exhibit 2 also details the weight given to achievement of each goal. An  
14 overview of the STI metrics, weights, and payout opportunities for non-  
15 leadership positions is set forth in the table below:



**TABLE 1: SUMMARY 2022 STI PLAN**

<b>Goals</b>	<b>Senior Management Committee (SMC) Weight</b>	<b>Leadership (Other than SMC) Weight</b>	<b>Non-Leadership Weight</b>	<b>Payout range</b>
EPS	50%	50%	50%	0-200%
O&M Expense	12.5%	10%	5%	0-175%
Operational Excellence	12.5%	10%	10%	0-175%
CSAT	12.5%	10%	10%	0-175%
Climate	12.5%	N/A	N/A	0-175%
Team	N/A	N/A	25%	0-175%
Individual	N/A	20%	N/A	0-175%

1                   Members of the Senior Management Committee (“SMC”), comprised  
2                   of Duke Energy Chair, President and CEO Lynn Good and her direct reports,  
3                   are subject to an Individual Performance Modifier pursuant to which the  
4                   Committee may exercise discretion to increase or decrease the aggregate  
5                   incentive payment of each SMC member. The calculation of the incentive  
6                   payments is based on the goals and weightings set forth above by up to 25%,  
7                   with reference to the SMC member’s achievement of their performance  
8                   objectives during the year.

1   **Q.   PLEASE PROVIDE ADDITIONAL DETAIL REGARDING THE**  
2       **METRICS INCLUDED IN THE STI PROGRAM FOR 2022, AND, IN**  
3       **PARTICULAR, DESCRIBE HOW THESE METRICS BENEFIT**  
4       **CUSTOMERS.**

5   A.   As the scorecard in Caldwell Direct Exhibit 2 reflects, corporate STI metrics  
6       are grouped into the categories of Financial Performance & Growth,  
7       Operational Excellence, and Customer Satisfaction. A detailed description of  
8       these categories is as follows:

9               Financial Performance & Growth: The Financial Performance &  
10       Growth measure consists of Earnings per Share and Operations and  
11       Maintenance (“O&M”) expense measures, each of which motivates employees  
12       to focus on financial discipline, efficient operations, and prudent use of  
13       resources, all which are vital to the health and stability of the organization.

14               (1) Earnings per Share (“EPS”): EPS is an important metric to  
15       evaluate the success of our performance, and it is a very common  
16       practice, both within and outside of the utility industry, to use EPS as a  
17       primary goal in incentive programs. A consistently growing EPS  
18       benefits customers by allowing Duke Energy to access the capital  
19       markets on reasonable terms, which ultimately lowers the Company’s  
20       financing costs. Lower financing costs is particularly important in  
21       today’s environment as DEC continues to invest in the critical  
22       infrastructure needed to meet unprecedented load growth and ensure the  
23       continued reliability and resiliency of the electric grid while retiring and

1 repurposing aging infrastructure. The Company's investments are also  
2 aimed at transforming the customer experience by providing customers  
3 with more billing options, additional energy usage information, and new  
4 tools to help manage and reduce energy costs.

5 Additionally, employees directly impact EPS by finding  
6 efficiencies and cost cutting measures which ultimately are passed on to  
7 customers when new rates reflecting those savings are implemented. As  
8 explained in Company Witness Michael Callahan's testimony, this  
9 incentive is a contributing factor to why DEC's annual non-fuel O&M  
10 expense has remained flat over the past five years – an impressive feat  
11 in this environment.

12 (2) O&M Expense Control: O&M expenses include those costs  
13 necessary to support daily operations, as well as operate and maintain  
14 the operating efficiency and productive life of assets. Cost control is an  
15 integral part of any company's success. The intent of this goal is for  
16 employees to focus on cost control on a day-to-day basis, which will  
17 allow Duke Energy to incorporate these savings into programs that will  
18 benefit customers.

19 Operational Excellence: This metric motivates employees to provide  
20 reliable and safe products and services to customers and consists of two equally  
21 weighted measures: Reliability and Safety/Environmental. This objective  
22 emphasizes service reliability and the mitigation of environmental risks  
23 associated with our operations.

1 (1) Reliability: The intent of this metric is to ensure that cost  
2 focus does not sacrifice DEC's ability to provide reliable service, which  
3 is expected by all customers. By including reliability in its annual  
4 incentive metrics, employees are financially motivated to ensure that the  
5 Company provides reliable service to its customers.

6 (2) Safety/Environmental: This metric incorporates safety and  
7 environmental stewardship into day-to-day activities, thus making the  
8 safety of employees, customers, and communities a priority. The safety  
9 and environmental goal payout will be determined by averaging the  
10 year-end accomplishment of two goals: (i) Total Incident Case Rate  
11 ("TICR"), which measures the number of occupational injuries and  
12 illnesses per 100 employees, including staff-augmented contractors; and  
13 (ii) Reportable Environmental Events, which are environmental events  
14 resulting from operations that have an impact on the environment,  
15 require notification (verbal/written/electronic) to a regulatory agency, or  
16 result in a regulatory citation or other enforcement action by a regulatory  
17 agency.

18 Customer Satisfaction: Duke Energy's incentive program also includes  
19 a Customer Satisfaction goal, or CSAT, which measures the degree to which  
20 customers have a favorable perception of an interaction, product, service, or of  
21 Duke Energy overall. Achievement is based on Duke Energy's Net Promoter  
22 Score, which is captured through its proprietary survey. As explained in  
23 Company Witness Retha Hunsicker's testimony, Duke Energy fosters a

1 customer-centric culture, and the customer satisfaction goal is intended to keep  
2 customers central to all that Duke Energy does across the company, regardless  
3 of where its employees work.

4 Team/Individual: In addition to these corporate metrics, and as I  
5 previously mentioned, the performance of non-leadership employees is  
6 assessed against pre-determined “team” goals set by their business units. The  
7 team goals directly benefit customers by tying employee compensation to  
8 reliability, outage frequency, time required to restore service, lost-time  
9 accidents, customer satisfaction scores, O&M expense levels, and capital  
10 expenditures. These goals are typically tactical and operational goals that align  
11 the work of each team to Duke Energy’s overall priorities. Team goal results  
12 establish a pool of dollars allocated at the discretion of managers among  
13 employees based on their individual performance and contributions to the team.

14 Executive and leadership-level employees are assigned individual goals.  
15 The individual goals are intended to motivate the executive leadership members  
16 to advance strategic and operational objectives and are generally aligned to the  
17 business in which they operate. Superior performance relating to these team and  
18 individual goals directly benefits DEC customers through safe and reliable  
19 service, customer service quality, and low energy costs.

20 **Q. PLEASE DESCRIBE THE LTI COMPONENT OF INCENTIVE PAY.**

21 A. At a high level, Duke Energy’s LTI programs provide equity-based  
22 compensation (i.e., stock awards) to executive and leadership-level employees.  
23 Compensation including stock awards aligns these employees’ interests with

1 the long-term interests of Duke Energy and its customers. The goal of the LTI  
2 programs is to attract and retain high-caliber leaders by providing a competitive  
3 compensation package and to encourage leaders to make sound business  
4 decisions from a long-term perspective. Stock awards are an important  
5 component of a compensation package that is reviewed annually to ensure  
6 ongoing competitiveness. Duke Energy's LTI opportunities generally vest over  
7 a period of three years, thus focusing executives on long-term performance and  
8 enhancing retention.

9 **Q. WHAT SPECIFIC LTI PROGRAMS ARE OFFERED BY DUKE**  
10 **ENERGY?**

11 A. Duke Energy has two LTI programs. The Executive LTI Plan is reserved for the  
12 most senior executives, including the SMC, which includes the CEO and her  
13 direct reports, and members of the Enterprise Leadership Team ("ELT"), which  
14 includes approximately 100 of the top leaders within Duke Energy below the  
15 level of the SMC. The second LTI program, the Restricted Stock Unit ("RSU")  
16 Program, is available to other strategic leaders below the ELT level who are  
17 responsible for the most critical roles in each business group (population  
18 generally ranges between 2-3% of the total Duke Energy employee population).

19 **Q. PLEASE DESCRIBE THE EXECUTIVE LTI PLAN.**

20 A. The Executive LTI Plan is designed to drive an ownership mindset for  
21 participants and ensure accountability for making short- and long-term strategic  
22 decisions. For 2022, participants in this program have 70% of their target LTI

1 opportunity awarded as performance shares, and 30% of their target LTI  
2 opportunity awarded as restricted stock units (“RSUs”).

3 Performance Shares: The performance shares granted in 2022  
4 incorporate three performance goals: (1) cumulative adjusted EPS, (2) Total  
5 Shareholder Return (“TSR”) compared to companies in the Philadelphia Utility  
6 Index, and (3) Total Incident Case Rate (“TICR”), which (as indicated above in  
7 my discussion of STI metrics) is a measure of operational safety – a factor of  
8 great importance to Duke Energy and its customers. Similar to the payout  
9 associated with meeting STI goals, payout of performance shares occurs only  
10 if pre-defined performance metrics related to the goals are met, but in the case  
11 of the performance share awards, the goals must be met over a three-year  
12 vesting period. The multiyear vesting period ties the number of performance  
13 shares participants ultimately earn to Duke Energy’s long-term performance,  
14 and this correlates to long-term value. Executive LTI Plan participants must  
15 generally continue their employment with Duke Energy for a three-year period  
16 to earn a payout.

17 RSUs: The other 30% of Executive LTI Plan participants’ target LTI  
18 opportunity is awarded as RSUs. Vesting of RSUs is solely tied to participants’  
19 continued employment through vesting dates over a three-year vesting period  
20 and is not dependent upon Duke Energy’s financial performance. Participants  
21 who remain employed with Duke Energy through a vesting date receive a share  
22 of Duke Energy common stock for each vesting RSU.

1   **Q.     PLEASE DESCRIBE THE LTI PROGRAM AVAILABLE TO LEADERS**  
2       **BELOW THE ELT LEVEL.**

3   A.     Leaders below the ELT level participate in the RSU program and receive their  
4       LTI value in the form of RSUs that vest equally over three years, thereby  
5       encouraging retention of high-quality employees. The reward of these RSUs is  
6       purely aimed at continued employment and is in no way tied to actual company  
7       performance. Participation in the RSU plan is reserved for positions that meet  
8       at least one of the following criteria:

- 9       •     Position has significant responsibility for a broad area or function or  
10      geographic region;
- 11      •     The employee leads major projects or groups with substantial enterprise  
12      or business unit strategic or financial impact;
- 13      •     The employee is in a role that has decision-making authority that  
14      impacts company performance; and/or
- 15      •     Position requires specialized expertise that is critical to business  
16      operations or strategy development.

17           The RSU plan is an equally important component within the total  
18      compensation package for eligible leadership positions (below executive level)  
19      and is critical to maintaining market competitiveness and retaining key  
20      leadership talent. The base salary for these employees is set at such a level that,  
21      when factoring in the retention-driven RSUs, the total package results in  
22      market-competitive compensation.



1   **Q.    HOW DO GOALS BASED ON MEETING EPS OR TSR BENEFIT**  
2       **CUSTOMERS?**

3    A.    In order to achieve EPS goals, Duke Energy must have strong cost management,  
4       prudent investments, and operational excellence, all of which benefit  
5       customers. Achieving financial success benefits customers by reducing the cost  
6       of capital as Duke Energy continues to conduct necessary maintenance of the  
7       system, invest in modernization of the electric grid, and transform the customer  
8       experience by providing customers with more billing options, additional energy  
9       usage information, and new tools to help manage and reduce energy costs.

10   **Q.    WHY IS IT IMPORTANT TO PROVIDE INCENTIVE**  
11       **OPPORTUNITIES AS PART OF EMPLOYEES' TOTAL**  
12       **COMPENSATION?**

13   A.    STI opportunities are components of market-competitive total compensation  
14       that are necessary to attract and retain qualified employees. I believe it  
15       important to stress the fact that if Duke Energy did not provide incentive  
16       opportunities to employees, the same target value of incentive compensation  
17       would need to be added to base pay – which is paid regardless of Duke Energy's  
18       performance – in order to maintain market-competitive compensation.

19               Similarly, Duke Energy's LTI programs are a necessary component of  
20       compensation packages for leaders. They allow Duke Energy to attract and  
21       retain high-performing leaders who are capable of leading the way to cleaner,  
22       smarter energy solutions that are valued by customers. If Duke Energy and its  
23       subsidiaries, including DEC, did not incorporate LTI as a part of the total

1 compensation for these leadership positions, the positions would require higher  
2 base salaries in order to provide the same level of market-based total  
3 compensation. If an increase to base pay was not made in place of the LTI  
4 component, and the overall level of total compensation was reduced, Duke  
5 Energy would not be able to effectively attract or retain the experienced leaders  
6 necessary to direct the efforts of its employees and make the best strategic  
7 decisions on behalf of the enterprise.

8 Put another way, whether it is through base pay, or a combination of  
9 base pay and incentives, Duke Energy must keep its overall compensation  
10 package competitive in order to attract and retain a competent workforce.  
11 Incentive pay is similar to the other costs related to providing electric service –  
12 it is a necessary cost to provide customers safe and reliable service. In the  
13 competitive market for talent, employees consider the total rewards package,  
14 including base pay, incentive pay and benefits, as a key determinant in deciding  
15 whether to work for a particular employer.

**VII. COST RECOVERY OF EXECUTIVE COMPENSATION EXPENSE**

16 **Q. DID DEC ADJUST O&M FOR EXECUTIVE COMPENSATION**  
17 **EXPENSE?**

18 **A.** Yes. As discussed in the direct testimony of Company Witness LaWanda  
19 Jiggetts, DEC removed 50% of the compensation of the five Duke Energy  
20 executives with the highest level of compensation allocated to DEC in the Test  
21 Period, including Duke Energy CEO Lynn Good. This adjustment removes  
22 O&M expense allocated to DEC SC for 50% of base salary as well as STI and

1 LTI compensation. While the Company believes these costs are reasonable,  
2 prudent, and appropriate to recover from customers, we have, for purposes of  
3 this case, made an adjustment to this item.

**VIII. COST RECOVERY OF INCENTIVE PAY EXPENSE**

4 **Q. WHAT INCENTIVE PAY EXPENSE DOES DEC PROPOSE TO**  
5 **RECOVER IN THIS PROCEEDING?**

6 A. As previously discussed, DEC voluntarily removed 50% of the compensation,  
7 including STI and LTI expense, for the five Duke Energy Corporation  
8 executives with the highest level of compensation allocated to DEC in the Test  
9 Period, including that for Duke Energy CEO Lynn Good. DEC proposes to  
10 recover its incentive plan expense in the same manner to what the Commission  
11 approved in the Company's previous base rate proceeding, Docket No. 2018-  
12 319-E. In that case, the Commission approved recovery of incentive pay  
13 expense at target levels that are directly assigned or allocated to DEC. The  
14 Commission rightly concluded the following in that proceeding:

15 As the incentive plans result in market-competitive  
16 compensation that results in solid operations, there is no  
17 evidence that they are not working or that they disadvantage  
18 customers. No party has alleged that the "rank and file"  
19 employees are overpaid, and how the Company decides to  
20 compensate its employees is a managerial decision, which is  
21 the sole responsibility of the Company. How to pay  
22 employees is a managerial decision, and as long as the costs  
23 and results are reasonable this Commission has no basis to  
24 reject the compensation at issue.

1 Order No. 2019-323 at 56. As the Commission's decision clearly reflects, these  
2 expenses are prudent, benefit customers, and are a component of market-  
3 competitive pay.

4 **Q. WHY DOES THE COMPANY'S PROPOSAL FOR INCENTIVE**  
5 **COMPENSATION ASSUME REACHING 100% OF TARGET**  
6 **ACHIEVEMENT LEVELS?**

7 A. These are the accrued and budgeted achievement levels for the performance  
8 goals for the STI and the LTI. The 100% target achievement level is used for  
9 the accruals and budget because this is what the Company expects to achieve  
10 on average.

#### **IX. CONCLUSION**

11 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

12 A. Yes.